

## Message Text

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PAGE 01 BUDAPE 03301 171352Z  
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TAGS: BEXP, HU  
SUBJECT: PRODUCTION OF LEVI STRAUSS JEANS IN HUNGARY

1. SUMMARY: PRODUCTION OF LEVI STRAUSS BLUE JEANS IN HUNGARY BEGAN OFFICIAL ON AUGUST 8 WITH OPENING OF MAY FIRST CLOTHING FACTORY IN MARCALI. DURING MARCH-AUGUST TRIAL PRODUCTION PERIOD, MARCALI PLANT'S PERFORMANCE IMPRESSED LEVI STRAUSS EXECUTIVES AS WELL AS HUNGARIAN PARTNERS. BOTH PARTIES ARE CONFIDENT THAT PLANT WILL REACH PRODUCTION CAPACITY GOAL OF ONE MILLION PAIRS AND ARE DISCUSSING GENERALLY OTHER AREAS IN WHICH COOPERATION ARRANGEMENTS MIGHT BE POSSIBLE. END SUMMARY

2. PRODUCTION OF LEVI STRAUSS BLUE JEANS IN HUNGARY BEGAN ON AUGUST 8 WITH OFFICIAL OPENING OF MAY FIRST CLOTHING FACTORY IN MARCALI, A SMALL TOWN NEAR SOUTHEASTERN TIP OF LAKE BALATON. MARCALI FACTORY IS ONE OF TEN MANAGED BY MAY FIRST CLOTHING ENTERPRISE. IT IS COMPLETELY EQUIPPED TO PRODUCE LEVI STRAUSS BLUE JEANS, ITS ONLY PRODUCT.

3. UNDER FIVE-YEAR COOPERATION AGREEMENT SIGNED IN OCTOBER 1977 BY MEL BACHARACH, VICE PRESIDENT OF LEVI  
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PAGE 02 BUDAPE 03301 171352Z

STRAUSS, AND DIRECTORS OF INTERCOOPERATION, HUNGAROTEX, AND PANNONIA FTO'S, MARCALI PLANT SHOULD ACHIEVE PRODUCTION CAPACITY OF ONE MILLION PAIRS OF JEANS IN THIRD YEAR OF ITS OPERATION. LEVI STRAUSS WILL PROVIDE ITS TRADEMARK, DENIM (FROM GREEK PLANT), ACCESSORIES, COMPLETE MACHINERY AND EQUIPMENT FOR FACTORY, PRODUCTION LICENSE, TECHNICAL KNOW-HOW AND MANAGEMENT TRAINING. LEVI STRAUSS

AGREED TO BUY BACK 60 PERCENT OF PRODUCTION FOR ITS OWN DISTRIBUTION NETWORK. MAY FIRST FACTORY WILL SELL REMAINING 40 PERCENT IN HUNGARY.

4. AT AUGUST 7 LEVI STRAUSS RECEPTION WHICH AMBASSADOR AND EMBOFFS ATTENDED, BACHARACH AND HUNGARIAN PARTNERS EXPRESSED SATISFACTION WITH MACALI PALNT'S PERFORMANCE DURING MARCH-AUGUST TRIAL PRODUCTION PERIOD. IN FEBRUARY OF THIS YEAR, LEVI STRAUSS SENT PETER ROMAN, ONE OF ITS ENGINEER-TECHNICIANS, TO HUNGARY TO INSTALL MACHINERY, ORGANIZE FACTORY'S PRODUCTION LINE, TRAIN WORKERS AND PREPARE PLANT MANAGERS TO ASSUME RESPONSIBILITY FOR ENTIRE PRODUCTION PROCESS. PILOT PRODUCTION BEGAN IN SPRING WITH TOTAL OF 220 WORKERS AND MANGERS, SOME OF WHOM WENT TO SAN FRANCISCO FOR TRAINING AT LEVI STRAUSS FACILITY. ACCORDING TO ROMAN, INTRODUCTION OF AMERICAN MANAGEMENT TECHNIQUES AND TRAINING CONTRIBUTED SIGNIFICANTLY TO PLANT'S IMPRESSIVE PERFORMANCE. HE BELIEVED THAT PEICE-WORK WAGE INCENTIVE BY WHICH INDIVIDUAL WORKER MIGHT DOUBLE HIS BASE SALARY OF 1800 FORINTS PER MONTH WAS PRIME MOTIVATION FOR INCREASES IN WORKER PRODUCTIVITY OVER THIS PERIOD. HE OBSERVED THAT WHEN PRODUCTION BEGAN IN MARCH, AVERAGE TIME REQUIRED TO PRODUCE ONE PAIR OF JEANS WAS 60 MINUTES. BY JUNE, THIS FIGURE DECLINED TO 27 MINUTES. GOAL IS PRODUCTION TIME UNDER 14 MINUTES. DURING TOUR OF PLANT ROMAN PAUSED FREQUENTLY AT WORKER'S DESKS LIMITED OFFICIAL USE

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PAGE 03 BUDAPE 03301 171352Z

TO DISCUSS GRAPHS SHOWING LEVI STRAUSS' OPTIMUM PERFORMANCE CURVE FOR EACH WORKER COMPARED WITH THE CURVE OF THE WORKER'S ACTUAL PERFORMANCE.

5. LEVI STRAUSS EXECTIVES AND HUNGARIAN PARTNERS ARE CONFIDENT THAT MARCALI PLANT WILL PRODUCE 420,000 PAIRS OF JEANS IN ITS FIRST YEAR OF OPERATION, 860,000 IN THE SECOND, AND ONE MILLION IN THE THIRD. ROMAN SAID THAT INITIALLY THERE WAS CONSIDERABLE RELUCTANCE ON PART OF HUNNGARIANS PARTNERS TOWARD INTRUDUCTION OF WAGE INCENTIVE AND OTHER OPERATIONAL INNOVATIONS, BUT THEY AGREED TO A TRIAL EFFORT. NOW THAT EFFECT OF THESE INNOVATIONS HAS IMPRESSED BOT LEVI STRAUSS EXECUTIVES AND HUNGARIAN OFFICIALS, HUNGARIAN PARTNERS WISH TO EXPLORE WITH LEVI STRAUSS POSSIBILITIES FOR FURTHER COOPERATION AGREEMENTS. DIRECTOR OF MAY FIRST ENTERPRISE TOLD EMBOFFS THAT PRODUCTION OF LEVI STRUSS BLUE JEANS JACKETS AND DRESSES UNDER JOINT VENTURE ARRANGEMENT IS ONE POSSIBILITY. ANOTHER IS PRODUCTION OF LEATHER COATS AND JACKTES. ROMAN DID NOT DISMISS SUCH POSSIBILITIES.

6. MARCALI PLANT WAS ELIBERATELY LOCATED IN SMALL

RURAL TOWN WITH FEW EMPLOYMENT OPPORTUNITIES FOR POORLY EDUCATED WOMEN, WHO MAKE UP BULK OF WORK FORCE. STILL, PLANT SUFFERS FROM HUNGARY'S LABOR SHORTAGE AND IS NOT AT FULL COMPLEMENT, ALTHOUGH ROMAN COMMENTED THAT MANAGEMENT HAS RELAXED STANDARDS ON PRE-EMPLOYMENT PHYSICAL DEXTERITY TESTS.

7. COMMENT: LEVI STRAUSS AND HUNGARIAN PARTNERS APPEAR TO HAVE ESTABLISHED A WELL-ORGANIZED, EFFICIENT PLANT. WORKERS AT MARCALI ARE NOTICEABLY MORE BUSY AT THEIR MACHINES THAN THOSE AT SEVERAL HUNGARIAN PLANTS VISITED BY EMBOFFS. SIMILARLY, FEWER MACHINES LAY IDLE. DEMAND IN HUNGARY FOR MARCALI PLANT'S JEANS IS QUITE HIGH AND THEY SELL FOR 980 FORINTS (52 DOLLARS) PER PAIR. EVEN LIMITED OFFICIAL USE

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PAGE 04 BUDAPE 03301 171352Z

AT THAT PRICE, MARCALI PLANT'S PRODUCTION WILL SCARCELY DENT HUNGARY'S ACTIVE BLACK MARKET IN JEANS FROM WEST. KAISER

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